PROGRAM GUIDELINES April, 1989

RENTAL HOUSING DEVELOPMENT ACTION LOAN PROGRAM (R-DAL)

The Rental Housing Development Action Loan program (R-DAL) was authorized in the Housing Act of 1987 as amended. It calls for EOCD to administer a "pilot loan program" for the "creation and retention" of rental housing and limited equity cooperatives for low and moderate-income families.

The program is designed to support projects that create or preserve the most lower-income family housing units with the least amount of R-DAL subsidies. These will generally (though not exclusively) be mixed-income developments that rely on the revenues generated from market rents from a portion of the units to carry the project to self-sufficiency. While the program acknowledges the social benefits that are inherent to mixed-income developments, projects that are dedicated primarily or entirely to lower-income households may also be funded.

Program Legislation enables R-DAL to participate in both "production" and "existing" projects. Present funding round eligibility is restricted to the "production" category which may include new construction and substantial rehabilitation projects. However, certain at risk developments, including "expiring use" projects, may receive R-DAL funding through negotiations independent of funding rounds. These guidelines outline key elements of the program as implemented for "production" projects for the Summer 1989 funding round.

GENERAL REQUIREMENTS

At a minimum, eligible projects must provide long-term rental housing opportunities for lower-income families.

"Long-term" means in perpetuity as allowed under state law and the statute. (The continued reservation of units for rental to low-income tenants in production projects will be ensured through a purchase option).

"Rental Housing" is income-producing property that is owned by a non-profit or limited dividend entity (including limited partnerships) or a limited equity cooperative corporation; it thus includes units in limited equity cooperatives.

"Lower-income" means residents whose incomes are less than 80% of the area median income (as defined by HUD's Section 8 program) and includes "low-income" residents with incomes less than 50%.

"Family Units" contain two or more bedrooms and are available to family households, and are not reserved for specific populations such as elderly or special needs.

Eligible projects must contain a fixed percentage-- at least 25%-- of units containing two or more bedrooms that are reserved for and affordable to lower-income families. While mixed-income occupancy is encouraged, there is no maximum limitation on the percentage of affordable units that may be reserved for lower-income families. In all cases, R-DAL assistance must be necessary to achieve a fiscally sound project, and alternative sources of funds must have been exhausted or be inappropriate. Additionally, properties should be primarily residential (80% or more of the useable floor area is for residential purposes), and contain a minimum of five family units. At least 50% of the total project units must contain two or more bedrooms.

Production projects should generally involve the addition of units to the housing stock. Rehabilitation of partially occupied, multi-family structures may also be eligible if the buildings contain a high percentage of vacant units (25%-50%), and require replacement of major systems. The scope of the rehabilitation must be substantial and required to return units to service that could otherwise be lost. Projects that are simply in need of repairs and financial restructuring are not eligible.

FINANCE STRUCTURE

The R-DAL Program is intended to be distinct from SHARP (an interest subsidy program that is operated through the Massachusetts Housing Finance Agency (MHFA)). R-DAL is designed to promote participation from a broader segment of the lending industry. Production projects are encouraged to pursue innovative sources of primary financing (i.e., through insurance companies and pension funds), and in any case, must secure financing from sources other than MHFA. The program also requires that the developer provide a minimum of 2% of total development cost as cash equity, beyond any contribution of the developer's fee.

ELIGIBLE DEVELOPERS/OWNERS

R-DAL projects may involve the transfer of property ownership from one private entity to another; development financing by an existing owner will also be permitted. Whether or not transactions involve title transfers, permanent ownership entities must be either limited dividend sponsors*, Chapter 180 non-profit corporations (including Chapter 40f CDCs), or Chapter 157B limited equity cooperative housing corporations.

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* A limited dividend sponsor means a corporation, partnership, or other organization which limits annual distributions from operation to no more than 6% on equity in the project. Equity in the project is the difference between the amount provided by capital sources and the total development cost (TDC). TDC may include a developer's fee (or Builder's/Sponsor's Risk Allowance (BSPRA)) of up to 20% of the total project cost determined prior to such allowance.

A. Operating Subsidy Loans

Operating Subsidy loans will be provided to bridge the gap between "cost-based rents" and "attainable rents". "Cost-based rents" are those which are needed to support mortgage payments plus operating costs. The operating proforma used to calculate these rents will generally show a debt service coverage ratio of 1.1. This ratio will be used as an initial standard for project underwriting.

"Attainable rents" for market rate units are the maximum that can be achieved on the open market. Developers may assume that Chapter 707 "back-up" subsidies will be available for lower-income units, to a maximum of 50% of total units. Generally, all back-up units must contain two or more bedrooms. Attainable rents for these units may be set at the Section 8 Fair Market Rents.

Loan advances will be made on a disbursement schedule over a fixed number of years, after which time the project must be self-sustaining. This term of the loan will generally be limited to 15 years. However, this term may be extended to 20 years depending on the percentage of units that are reserved for lower-income families. For each 5% of units reserved above the 25% minimum, the loan term may be extended beyond 15 years by one year.

The annual amount of the advances must be the minimum needed for project feasibility and must be within the program maximums described below. Sponsors should build into projected long-term operating budgets a gradual reduction in the annual loan advances that are needed as the attainable rents increase. The project must reach financial feasibility without the benefit of the R-DAL subsidy at the end of the loan term.

If, at any time during the term of the loan there is excess cash flow after all expenses have been paid, reserves have been funded and distributions (if any) to the Sponsor have reached permissible percentages of equity, further loan disbursements will be reduced by the amount of the excess cash flow. Also, it is expected that for some projects loan disbursements will not be required for the full 15 year loan term; the project will reach self-sufficiency before year 15. During the remainder of the loan term, after disbursements have ended, repayment on the outstanding principle and interest will be required to the extent that cash flow exceeds the maximum 6% return on equity.

The sum of the loan advances (plus 5% simple interest) will be a lien on the property, secured by a note and mortgage. At expiration of the loan term, or upon sale or refinancing prior to that time, the note will be due and payable.

The maximum loan per unit is set at the base levels established by the SHARP program. All residential units will be considered in the loan calculation. The current base level subsidy is as follows:

0-BR . . .	$2,301
1-BR . . .	2,876
2-BR . . .	3,595
3-BR . . .	4,313
4+-BR . . .	5,033

These maximum per unit subsidies may be increased by up to 10% in smaller projects, i.e., those containing less than 25 units. There are two reasons for this additional R-DAL assistance: (a) there are fewer units over which to spread certain fixed development costs (land, architectural, legal, etc.); and (b) higher fees are needed to attract and pay for competent property management.

Maximums above the base level may also be approved in accordance with the following additional bonus criteria:

1. Project structure is 70 feet or higher and is required to comply with provisions of Section 431 of the Massachusetts State Building Code.

2. Project provides structured parking for at least 30 percent of the spaces where the site requires.

3. Owner is providing significant financial contributions above required program levels, or at least 5 percent cash invested in the development beyond any contribution of Developer's fee.

4. Attainable market rents are no more than 90 percent of published Section 8 Existing Fair Market Rents for Boston.

5. More than 35 percent of the units are guaranteed for low-income occupancy in perpetuity.

6. Owner assigns to the Commonwealth at least 10 percent of residual value in the property after sale or refinancing, over and above the R-DAL repayment obligation.

Projects containing less than 25 units or meeting any two of these criteria may qualify for R-DAL up to 110% of the base level. Projects meeting any three criteria (or having less than 25 units plus one criterion) may qualify for up to 125% of the base level. Projects meeting any five criteria (or having less than 25 units plus three criteria) may qualify for up to 135% of the base level.

The maximum initial year's Operating Subsidy is $250,000 per project, and the maximum subsidy throughout the entire disbursement period is $2.5 million per project. The first year's Operating Subsidy will be the maximum permitted per year, and the annual R-DAL disbursment should gradually decline over the term. The maximum first year subsidy for any project is established by multiplying the number of project units (by bedroom size) by the percentage of base level subsidy for which the project is eligible; the maximum possible subsidy is then the lesser of this number and $250,000.

COORDINATION WITH OTHER STATE PROGRAMS

R-DAL projects may receive rental assistance from the Chapter 707 program. They may also be funded in conjunction with the Housing Innovations Fund and other EOCD capital financing programs. Regardless of other funding sources, R-DAL awards will generally be based on competitive criteria that emphasize project merits and cost effectiveness.

FUNDING PRIORITIES

To be eligible for R-DAL assistance, a minimum of 25% of the units must be permanently reserved for lower-income tenants. Further, at least 50% of the total units must contain 2 or more bedrooms. Beyond these threshholds, projects will be funded according to four priority criteria:

1. Located in areas with the greatest need for housing for low-income families.

   [Project sponsors will be required to submit certain data to establish housing needs. Compliance with the provisions of Executive Order 215 shall be considered a need for low-income housing in the community.]

2. Contain the highest percentage of housing for low-income families.

   [Priority projects will be those reserving a percentage of units for low-income tenants above the required 25%. The reservation of up to 50% will contribute additional priority points.]

3. Contain units for large families.

   [Highest priority projects will be those in which up to one-half of the low-income units are 3+ bedrooms.]

4. Endorsed by local housing partnerships that have been designated by the Massachusetts Housing Partnership (MHP).

   [Priority will be given to projects that have been reviewed and endorsed by local housing partnerships.]

In addition, EOCD will review projects based on the following considerations:

1. Financial: least amount of R-DAL per unit relative to unit size, percentage of affordable units and the Developer's equity contribution. Developer contribution of potential return on investment during the term of the loan will also be assessed.

2. Development team: likelihood of high quality project as indicated by experience and capacity of developer, consultant (if any), architect, contractor, and management agent.

3. Design: quality and appropriateness of building design as measured against MHFA design and technical standards for multifamily residential housing.

4. General Underwriting: accuracy and reliability of capital budget, operating expenses, and market rents.

5. Readiness to Proceed: project's ability to expeditiously move to construction based on status of required variances and permits, finance commitments, architectural plans and construction bids.

   EOCD will score projects through a point system based on these priorities and areas of analysis.

FUNDING PROCESS

EOCD will, from time to time, announce R-DAL funding rounds. Preliminary applications will be made available to interested developers. Completed preliminary applications will be evaluated with regard to readiness to proceed and program applicability. If a project meets threshold criteria, a full application package will be forwarded to the developer.

The Department will review projects to determine funding priority and to satisfy loan underwriting concerns. MHFA will assist EOCD with some portions of the underwriting analysis. Developers may be contacted by MHFA technical staff regarding those analyses.

FLOW OF FUNDS

The program's enabling statute requires that EOCD contract with a funding intermediary rather than make loans directly to developers. It is expected that MHFA will act as the funding intermediary for R-DAL operating subsidy loans.

PROGRAM FEES

Project sponsors will pay fees at various points through the review process. There will also be an "R-DAL financing fee" paid at loan closing and funded directly by the R-DAL subsidy.

The following is the fee schedule:

Fee:	Amount:	Timing:
Application	$3,000	Upon submission of final application; prior to competitive review. (Payment may be deferred by non-profits.)
Funding Reservation	2,500	Upon successful competition; prior to project underwriting.
Loan Commitment	0.2% of TDC	Upon R-DAL loan commitment; prior to closing.
R-DAL Financing Fee	1% of total R-DAL over disbursement period	At loan closing (from program funds).

Annual Loan Servicing Fee - Amount to be established. Will be paid out of R-DAL disbursements.

All fees will be made payable to MHFA and be used to defray the costs of program administration.